

The North Carolina State Health Plan for Teachers and State Employees

Performance/Efficiency Audit Report Governance

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Appreciations

Navigant Consulting, Inc. and its two subcontractors, MGT of America, Inc. and Intellogy Advisors, could not have completed this analysis without the assistance of the dedicated staff at the North Carolina State Health Plan (SHP). We wish to thank Dr. Jack Walker, Executive Administrator, and Lacey Barnes, Deputy Executive Administrator, for their leadership and guidance throughout the project.

Executive Summary

The North Carolina Health Plan for Teachers and State Employees (SHP) engaged Navigant Consulting, Inc. and its two subcontractors to conduct a performance and efficiency review of the SHP. This report details the audit team's findings related to one of the 12 functional areas included in the scope of the review – the Governance functional area.

The audit team's review of the Governance functional area involved conducting interviews with various stakeholders who had insight on the SHP's governance structure, including members of the oversight committee, members of the Board of Trustees, SHP management, the Governor's Office, representatives of several state agencies, and representatives of beneficiary interest groups. The audit team also reviewed past audit reports and reviewed laws and regulations pertaining to the current governance structure. In addition, the team researched governance structures utilized by other states in the administration of their respective health plans.

The SHP operates as an agency within state government, but reports to a legislative oversight committee, who has the primary responsibility for overseeing the SHP. The responsibility for day-to-day management of the SHP is assigned to the executive administrator of the SHP. The executive administrator is responsible for all key operations of the SHP, including membership functions, provider and participant relations, communications, and negotiation and execution of contracts with third parties to carry out plan activities. State law also established the creation of the Board of Trustees of the State Health Plan. The board is responsible for reviewing claim appeals and providing guidance to the executive administrator in developing policies.

Summary of Findings

The audit team found that the current governance structure of the SHP does not provide the level of oversight required to manage a health plan of this nature. The legislative oversight committee does not have the capacity or resources to govern the SHP effectively. In addition, the SHP's administration is hindered by the absence of a governing board delegated with the authority to establish policies and make decisions. The combination of these conditions results in an environment where the SHP is not receiving a sufficient level of ongoing monitoring. Moreover, the audit team did not find any other states that operated their health plans using a structure similar to that of North Carolina.

Summary of Recommendations

The audit team made one key recommendation to improve to the SHP governance: Establish the SHP as an independent agency that reports organizationally to the Governor's Office and functionally to a governing board.

The audit team developed several additional supplemental recommendations to strengthen the governance structure and promote steady leadership over the SHP. Because many of these recommendations involve changing the general statutes or creating new policy, the audit team has directed them to the State as a whole, rather than to the SHP or oversight committee. However, it is important that the recommendations be supported and championed by the SHP and other relevant parties in order to encourage their successful implementation.

- The State should change the reporting structure of the SHP to have it report organizationally to the Governor's Office and functionally to a governing board. This bifurcated structure would allow the SHP to be organized under the executive branch, while having a governing body assume responsibility over its operations and policy decisions.
- The General Assembly should adopt legislation to discontinue the operations of the current Board of Trustees and establish a new board empowered with governing authority. The Board of Trustees does not have any decision-making authority over the SHP and essentially defers to the executive administrator who has exclusive authority over managing the SHP. Likewise, the General Assembly should seek to discontinue the existence of the State Health Plan Administrative Commission, since the primary functions of that commission could be absorbed within the new governing board.
- The newly formed governing board should establish a formal charter and a set of guiding principles in order to provide the proper framework for exerting its oversight responsibilities effectively. The charter provides the board with the basis for its mission and purpose and also serves as the reference source to ensure consistency and continuity in the board's responsibilities, even as turnover among board members occurs over time. The guiding principles provide a high-level framework by which the board can refer to whenever evaluating alternate courses of action, and provide the criteria against which the SHP's policies and procedures will be evaluated.
- The State should seek changes to the statutes to define the composition of SHP's governing board. The prescribed mix of members should be based on the need for balance among the various participants of the SHP, while also factoring the desire for subject-matter knowledge and professional experience in administering health plans. The audit team recommends the board have at least one member apiece from each of the major groups of participants, including active state employees, school district personnel, local agency representatives, and retirees.

- The State should develop a methodology for ensuring a fair and equitable selection of competent board members to serve on the governing board. Based on public expectations that board representatives have the appropriate knowledge and background required to perform their duties, the State should ensure that the process for evaluating potential board members focuses on the desired characteristics of such representatives. The audit team recommends establishing a selection committee and utilizing best practices of other organizations to develop a screening and interview process for prospective board members.
- The governing board should work with the executive administrator to develop a formal communications and reporting relationship to allow for effective oversight and follow up. As the consolidated authoritative oversight entity, the governing board should have direct access to all key information and have the expectation that the SHP will provide meaningful and comprehensible reports.
- The SHP should develop a formal communications strategy for periodically communicating its financial and operational status with the General Assembly and Governor's Office. The SHP should communicate with the legislative and executive branch leadership to ensure that they are apprised of issues affecting the financial outlook of the SHP in a timely manner.

Potential Savings

The audit team believes that there will be some additional costs associated with implementing the recommendations in this report, although it is difficult to estimate these incremental costs. For some recommendations, such as those involving statutory changes, there will likely be one-time costs incurred for the efforts to implement the changes. Other recommendations, such as the implementation of a formal board selection process, would result in additional recurring personnel costs as activities are expected to occur periodically. Additional costs would also be incurred to the extent that the State increases compensation to members of the new governing board beyond the rates paid to current members of the Board of Trustees.

The implementation of recommendations pertaining to the governance function may not directly result in immediate cost savings. However, the State will likely realize long-term improved efficiencies in its governance structure, the benefits of which may be recognized in the form of time and resource savings, such as additional time available for legislators who served on the oversight committee to focus on other responsibilities benefitting the State. The realization of savings may also be in the form of establishing appropriate oversight of the SHP to avoid cost overruns from occurring and warning indicators from not being addressed immediately.

I. Introduction

Overview of the Project

Navigant Consulting, Inc. and its two subcontractors, MGT of America and Intellogy Advisors, teamed to conduct the performance and efficiency review of the North Carolina Health Plan for Teachers and State Employees (SHP).

The SHP provides health care coverage to more than 661,000 teachers, state employees, retirees, current and former lawmakers, university and community college personnel and hospital staff and their dependents. To administer this benefit for its members, the SHP contracts with outside vendors: Blue Cross Blue Shield of North Carolina (BCBSNC), the medical claims processing contractor and Medco Health Solutions, the Pharmacy Benefit Manager. These contractors are referred to by name and as the Administrative Service Organizations throughout this report.

The SHP requested the review following concerns raised by various State agencies and oversight bodies regarding the performance and operation of the SHP. In April 2009, the North Carolina State Auditor's Office issued a report of its findings and recommendations following a performance audit of the SHP. The State Auditor noted significant deficiencies, finding that the SHP had come in close to \$138 million off of its budget for fiscal year 2008, resulting in an almost \$80 million loss to the State. The audit report found that the SHP underestimated total claims expenses by \$163.8 million and that costs under both the indemnity plan and Preferred Provider Organization (PPO) plans failed to meet expectations. The auditor's report of the losses by the SHP came at the same time that the North Carolina General Assembly was working to close budget gaps in a time of diminishing revenues and increasing expenses.

SHP Overview

The SHP began when the General Assembly enacted legislation to provide this benefit. The SHP has seen many changes to its organizational and oversight structure and the types of plans offered. At the beginning of the audit period, June 2005, the SHP offered only an indemnity plan (comprehensive major medical or CMM plan). In February 2006, the SHP signed an Administrative Services Agreement with BCBSNC so that effective October 2006, the SHP could begin transitioning to a new benefits plan, offering three preferred provider organization (PPO) plans, with a high, medium and low option in addition to the indemnity plan. The SHP gradually transitioned all members to the PPO, with the indemnity plan being eliminated as of July 2008. Recent legislation eliminated the high or PPO plus option effective July 1, 2009, leaving two PPO options for its members. The Administrative Services Agreement expires in June 2013, with optional renewal periods until June 2016.

In signing the Administrative Services Agreement, however, the then-executive administrator exercised an option to sign a sole-source agreement with BCBSNC and did not seek competitive bids. Additionally, the executive administrator did not seek a review of the Administrative

Services Agreement terms with legal counsel or the North Carolina State Attorney General's office.

As discussed in more detail in the Finance report, as part of the Administrative Services Agreement, the SHP agreed to modify the reimbursement terms for the CMM plan as well as for the new PPO plan. Prior to the new Administrative Services Agreement in October 2006, the Administrative Services Agreement specified that administrative costs were reimbursed at a flat rate per contract per month. Following the introduction of the PPO plan, however, the SHP agreed to a cost-plus reimbursement of administrative costs for both the PPO as well as the CMM programs. The cost-plus agreement required the SHP to reimburse BCBSNC for all direct and indirect costs related to providing services on behalf of the SHP, as well as a share of overhead costs, as long as these were allocated in accordance with the same methodology used to allocate costs to other BCBSNC lines of business. Further, the cost-plus agreement introduced the "plus" or profit allowance that previously had not been included in the SHP's payments to BCBSNC for its services. The profit percentage was relatively small (0.625 percent for the PPO plan and 0.85 percent for the CMM plan), but did apply to both the existing CMM and new PPO plans.

The SHP also has a separate pharmacy benefit management with another entity (Medco Health Solutions) for the provision of pharmacy claims management services. The SHP's relationship with this organization, including findings and recommendations related to the pharmacy benefit management agreement, is discussed more fully in the pharmacy management functional area report.

In fiscal year 2007 – 2008, the SHP ended the year with a significant loss—instead of an estimated \$57.9 million profit at year end, the SHP incurred a loss of \$79.7 million. The General Assembly requested that the North Carolina State Auditor conduct an audit of the SHP revenues and expenses to determine the reason for \$137.6 million variance. In July 2008 (start of the fiscal year 2008 – 2009), the General Assembly directed the Insurance Commissioner to terminate the then-executive administrator. A new executive administrator was hired and began work in July 2008. The State Auditor released two reports – one of the SHP governance structure in October 2008 and another on the fiscal year 2007 – 2008 loss in April 2009 (and described earlier in this section).

In the April 2009 report, the State Auditor reported that many of the SHP's issues arose because of the failure by SHP officials to draft a reasonable contract with BCBSNC. The auditor reported that the current contract does not specify what costs BCBSNC is able to charge to the SHP and provides no incentives for BCBSNC to keep its costs down. In fact, according to the State Auditor's report, the current contract does the exact opposite. The SHP agrees to pay BCBSNC its costs – plus a percentage of the insurer's costs to provide a profit margin. Such a setup however, means that BCBSNC earns more as the SHP's costs rise. The audit report notes that the federal government stopped using such contracts in 1941.

In an August 2009 presentation to the General Assembly, the new SHP executive administrator acknowledged that there were significant deficiencies with the current contract. He reported that the Claims Processing Contract was last bid in 1996 and that BCBSNC was the sole bidder. He also reported that the SHP did not competitively bid the PPO contract when the SHP introduced the PPO benefit plan in October 2006. The SHP instead exercised its statutory authority, that allowed it an exemption from state competitive bidding requirements, to negotiate a sole-source contract with BCBSNC. The executive administrator of the SHP reported that the SHP revised its internal contracting policy to include a review by a contract attorney with the Attorney General's office.

In April 2009, the General Assembly enacted Senate Bill 287—State Law 2009-16. Section 5(g) of this legislation required the executive administrator of the SHP to submit a request for proposal (RFP) for an independent audit of the SHP and an audit of claims paid by the SHP. The bill specified that the audit scope was to include the following specific objectives:

- Estimated or actual savings that could be achieved if changes recommended by the independent auditor were enacted by the General Assembly and how those savings should be allocated to the benefit or SHP members
- The governance structure of the SHP and whether it should be under the supervision and oversight of the Governor or a state agency
- The extent to which the failure or inability to share confidential or otherwise protected information with the Board of Directors and the General Assembly contributes to financial weaknesses in the SHP and how such data sharing should be strengthened
- The role of the Board of Directors of the SHP and whether their role should be strengthened or otherwise changed
- Past, present and potential areas of overpayment, overutilization and underutilization or abuse that contribute to increasing costs of SHP benefits, including deductibles, co-payments, dependent premiums and co-insurance maximums
- Safeguards to ensure the prompt reporting of claims data and trends to the actuaries under contract with the SHP and the General Assembly
- Any other matters the executive administrator, fiscal research division staff, the director for the Program Evaluation Division, or the contracting entity believes would be useful in helping to strengthen the financial integrity of the SHP and its benefits

The SHP issued an RFP in September 2009 to conduct a performance and efficiency audit. After soliciting public bids, the SHP contracted with Navigant Consulting to conduct a performance

review of the SHP and its administrative services agreement with its Administrative Services Organizations.

Functional Areas Reviewed

The SHP requested reviews of the Administrative Services Agreement, governance structure and 10 functional areas:

- Appeals
- Claims Administration
- Customer Services
- Finance
- Information Technology and Data Reporting
- Membership Accounting
- Other Medical Management
- Pharmacy Management
- Provider Relations and Delivery Systems
- Utilization Management

Within each of these functional areas, the SHP presented a series of questions that should be addressed in the audit.

The audit team notes that the SHP clarified that although it used the term “performance and efficiency audit,” it was not requesting an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS or Yellow Book). The primary reason for this was due to the increased time commitments that would be required for a Yellow Book audit – time commitments that would not result in a final comprehensive report by the deadline established by the SHP in anticipation of the General Assembly’s short session in May 2010. To the extent that the terms performance audit or efficiency audit are used in this report, they are not intended to mean a Yellow Book audit.

For this engagement, the team conducted a performance review rather than a Yellow Book audit. The audit team notes that although it did not conduct a Yellow Book audit, it did employ some aspects of Yellow Book work in conducting this review. For example, the team performed risk-based quality review of key documents and data to assess the reliability, accuracy and completeness of the data.

Approach to the Audit

The audit team divided the project into four stages: Initial Survey Stage, Detailed Fieldwork Stage, Functional Area Reporting Stage and Comprehensive Final Reporting Stage. During the initial survey, the audit team initiated the project with a kickoff meeting with the SHP to discuss and clarify the goals, objectives and the proposed work plan and timeline. After adjusting the work plan and timeline based on this first discussion, the audit team then held an entrance conference with the SHP and BCBSNC and Medco Health Solutions (the ASOs) to discuss the goals and objectives of the audit, the project timeline and the ASOs' responsibilities to provide requested documents and data and cooperate with the audit and the need for confidentiality agreements.

Following the execution of the confidentiality agreement with the ASOs, the audit teams began the initial survey phase in November 2009. During the initial survey stage, audit team members met with staff and managers at the SHP, representatives of user groups, state legislators and staff in several state agencies, including the Governor's Office, the Office of Budget and Management and the North Carolina General Assembly's Fiscal Research Division. The audit team also reviewed a number of documents, including state laws and regulations, SHP policies, the Administrative Services Agreement between the SHP and BCBSNC and prior audit reports. The interviews and information gathering were designed to assist the audit team in the preparation of its final audit work plan.

The audit team prepared an initial survey update document, which reported key issues or focus areas, as well as proposed a work plan with specific steps that the audit team recommended following in conducting fieldwork. The SHP management reviewed the draft work plans and provided comments and guidance that the audit team used to create the final work plans.

At the end of the initial survey, each functional area audit team prepared an initial survey update document, which reported key issues or focus areas and presented a proposed work plan with specific steps that the audit team recommended following in conducting fieldwork. The SHP management reviewed the draft work plans and provided comments and guidance that the audit team used to create the final work plans.

In early January 2010, the audit team began carrying out the detailed fieldwork activities. The audit team's work included a variety of procedures, including the following:

- Individual interviews with various stakeholders
- Review of the North Carolina General Statutes
- Review of past reports addressing the SHP's governance structure
- Analysis of governance structures utilized by other states

Following the detailed fieldwork, the audit team prepared a draft report with its key findings

and recommendations for the functional area. Due to the nature of the governance function, the audit team presented the draft report only to the SHP for its review and comment. Following receipt of comments, the audit team incorporated changes or conducted additional work as needed to create the final functional area reports. This report represents the functional area report for the Governance area. Following acceptance of this report, the audit team will also incorporate all functional area reports into a comprehensive final report.

Governance Functional Area Audit Tasks

- Review the Plan's governance structure to assess its strengths and weaknesses, and whether the structure provides adequate oversight and control. *See Description of Current Governance Structure section, beginning on page 8.*
- Compare the Plan's reporting and governance structure with peer organizations. *See Description of Current Governance Structure section, beginning on page 8.*
- Determine whether any element of Plan governance and oversight should be strengthened or otherwise changed or that is inefficient, ineffective or redundant. *See Findings and Recommendations section, beginning on page 11.*
- Review the issues identified by the October 2008 and April 2009 State Auditor's reports related to governance and oversight. *See Findings and Recommendations section, beginning on page 11.*
- Review and access the analysis and recommendations of the Plan's Board of Trustees for modifying the governance structure and oversight. *See Findings and Recommendations section, beginning on page 11.*
- Assess limitations related to requirements to protect and maintain confidentiality of certain information and contracts and the impact of the inability to share confidential or otherwise protected information with the Board of Trustees and General Assembly and develop recommendations for improvements. *See Findings and Recommendations section, beginning on page 11.*
- Develop recommendations to ensure prompt reporting of claims data and trends to actuaries. *See Findings and Recommendations section, beginning on page 11.*
- Determine whether the Plan should be under the supervision and oversight of the Governor, the General Assembly, or a particular state agency. *See Findings and Recommendations section, beginning on page 11.*

Individuals Interviewed

For the Governance functional area, the audit team interviewed various stakeholders who provided information about the SHP's governance structure, including members of the

oversight committee, members of the Board of Trustees, SHP management, the Governor's Office, representatives of several state agencies and representatives of beneficiary interest groups.

Materials Reviewed

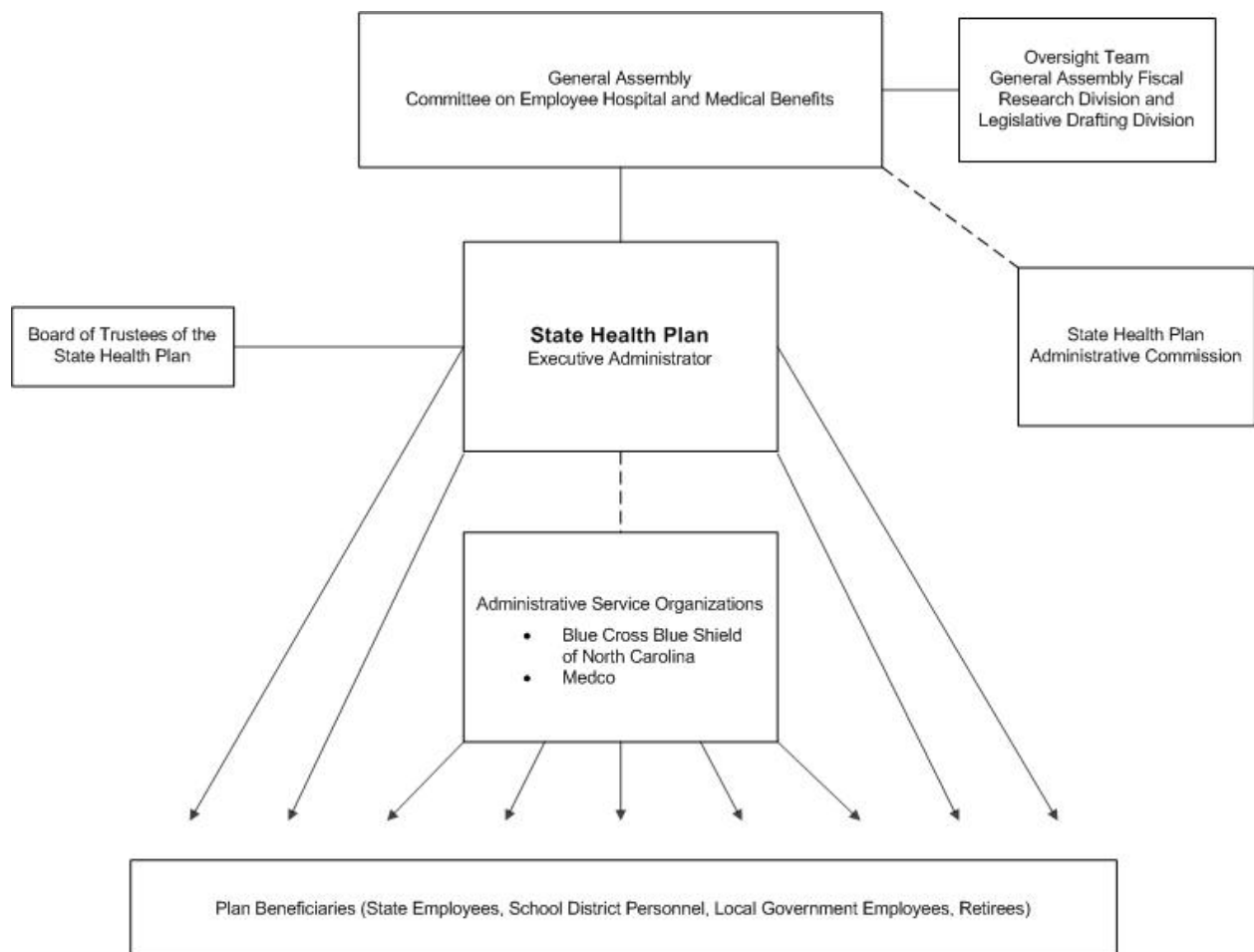
For the Governance functional area, the audit team reviewed past reports issued by the North Carolina State Auditor's Office and the Board of Trustees. The team also reviewed laws and regulations pertaining to the current governance structure and other pertinent documents. In addition, the team researched governance structures utilized by other states in the administration of their respective health plans.

II. Description of Current Governance Structure

An understanding of the governance structure is helpful to better understand the significance of the findings and recommendations. This chapter provides an overview of the governance structure that existed during the audit period for the North Carolina Teachers' and State Employees' Preferred Provider Organization Plan (PPO) and North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan (CMM) plans.

North Carolina General Statute (N.C.G.S.) Chapter 135 authorized the creation of the SHP and prescribed the organizational structure of the entity within the context of state government. The SHP has a unique governance structure, unlike those found in comparable health plans of other states. As depicted in Figure 1, several entities are involved in the administration and governance of the SHP. The following paragraphs describe this structure in further detail.

Figure 1: Governance Structure of the North Carolina SHP



The SHP operates as an agency within state government. Unlike many of the other service-oriented state agencies that fall under the executive branch of government, the SHP is organized under the jurisdiction of the legislative branch. Within the North Carolina General Assembly, the Committee on Employee Hospital and Medical Benefits (oversight committee) has the primary responsibility for overseeing the SHP. The oversight committee is comprised of 12 members, 6 from the Senate and 6 from the House. The committee is chaired by the President Pro Tempore of the Senate and the Speaker of the House, or their designees, who serve on the committee for the duration of their terms in office. The remaining members serve two-year terms. To assist in its management of the SHP, the oversight committee may use the services of the Legislative Services Office. The Legislative Services Office includes the Fiscal Research Division and the Legislative Drafting Division. The oversight committee may also request the state budget director and the Office of State Budget and Management to monitor the SHP and its related functions. The statute refers to this collective group of entities as the Oversight Team.

The executive administrator of the SHP handles the day-to-day management of the SHP. The executive administrator is responsible for all key operations of the SHP, including membership functions, provider and participant relations, communications and negotiation and execution of contracts with third-parties to carry out plan activities. The executive administrator appoints a deputy executive administrator and employs other professional staff to assist as needed. SHP currently has approximately 30 full-time employees. These employees work directly with the Administrative Services Organizations to ensure that benefits are properly administered to SHP participants.

State law also established the creation of the Board of Trustees of the SHP (board). The board is responsible for reviewing claim appeals and providing guidance to the executive administrator in developing policies. The board is comprised of nine members, appointed as indicated in Figure 2. The board positions are for two-year terms.

Figure 2: Board of Trustees of the SHP

<ul style="list-style-type: none"> Three members shall be appointed by the Governor. Terms shall be for two years. Vacancies shall be filled by the Governor. Of the members appointed by the Governor, one shall be either: <ol style="list-style-type: none"> An employee of a state department, agency, or institution; A teacher employed by a North Carolina public school system; A retired employee of a state department, agency, or institution; or A retired teacher from a North Carolina public school system.
<ul style="list-style-type: none"> Three members shall be appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives.
<ul style="list-style-type: none"> Three members shall be appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

The SHP Administrative Commission is an entity that has a very specific, but limited, set of responsibilities. The Commission is comprised of three members of the General Assembly (two members recommended by the Speaker of the House and one member recommended by the President Pro Tempore of the Senate), who are appointed for two-year terms. The Commissioner of Insurance serves as the secretary of the Commission, which is located administratively within the Department of Insurance. However, the Commission exercises its statutory responsibilities independent of the Commissioner of Insurance. One of the Commission's key responsibilities is to appoint the executive administrator of the SHP. Prior to July 2008, the statute designated the Commissioner of Insurance with the responsibility for hiring and firing the executive administrator, under the guidance of the oversight committee.

III. Findings and Recommendations

Introduction

This chapter identifies the audit team's findings and recommendations related to the review of the SHP governance structure.

The audit team found that the current governance structure of the SHP does not provide the level of oversight required to manage a health plan of this nature. The oversight committee does not have the capacity or resources to govern the SHP effectively. In addition, the SHP's administration is hindered by the absence of a governing board delegated with the authority to establish policies and make decisions. The combination of these conditions results in an environment where the SHP is not receiving a sufficient level of ongoing monitoring. In addition, the audit team did not find any other states that operated their health plans using a structure similar to that of North Carolina.

The audit team identified several recommendations that, if addressed and implemented, will serve to strengthen the governance structure and promote steady leadership for the SHP in the future. These issues are presented in this chapter.

Finding 1: The current governance structure does not ensure adequate oversight and monitoring of the SHP.
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The current structure of governance over the SHP does not provide the necessary level of monitoring and oversight required to manage an organization of this nature. Key components contributing to the challenges of maintaining effective leadership include the involvement of a legislative committee as an oversight entity and the lack of an authoritative board to govern operations.

The Oversight Committee Lacks the Capacity to Manage the SHP

The oversight committee does not have the capacity or resources available to govern the SHP effectively. In particular, an ongoing challenge of having a legislative body in an oversight role is the limited availability to devote proper attention to monitoring responsibilities. Legislators have numerous responsibilities while serving in their elected offices and will likely find it conflicting to dedicate sufficient time and resources towards managing a multimillion dollar benefits plan. Moreover, the General Assembly convenes for only a portion of the year, thereby limiting the availability of the legislators to stay involved with the SHP.

As referenced in the previous chapter, the oversight committee is responsible for monitoring SHP's operations. Although the committee is comprised of 12 legislators, it appears that the most active participants were the two co-chairs. A few previous members informed us that their extent of involvement on the committee was fairly limited. In many cases, they deferred to the committee co-chairs for direction on decisions pertaining to the SHP's operations. With the

exception of the co-chairs, members generally did not have specific assigned responsibilities as part of the committee.

Another concern of the existing legislative oversight structure is the infrequency of committee meetings. State statute directs the oversight committee to meet no less than once each quarter to review the actions of the executive administrator and the Board of Trustees. However, there are challenges in being able to operate a health plan effectively if the group assigned to oversee the plan is meeting only once every three months. Policy issues requiring urgent attention could potentially be tabled for a period that may not be timely, especially given the potential magnitude of stakeholders affected. Furthermore, some committee members and stakeholders informed the audit team that the committee did not always meet during its regularly scheduled intervals.

The Board of Trustees Lacks the Authority to Govern the SHP

The Board of Trustees lacks the appropriate authority to oversee the plan. Although the statutes make numerous references to the board, it falls short of granting the board any type of decision-making responsibility. Specifically, N.C.G.S. Section 135-44.3 states that any references in Chapter 135 to the “Executive Administrator and Board of Trustees” means that the executive administrator shall have the power, duty, right, responsibility, privilege, or other function mentioned, after consulting with the Board of Trustees. However, the statutes do not reference any power vested with the board to authorize or approve actions assigned to the executive administrator. Consequently, the executive administrator could carry out specific actions contrary to the board’s desires.

In the audit team’s interviews with selected board members, they characterized the board’s role as advisory in nature and acknowledged that their powers were limited. The board generally deferred to the executive administrator on decision-making activities. In addition, the board does not have a strategic plan directing its goals, objectives and actions.

Other State Agencies Have Limited Involvement with the SHP

Aside from the entities described, there has been very little oversight of the SHP performed by any other body within state government. The Governor’s Office has had minimal direct involvement with the SHP. Its interaction has been limited to dealing with budgeting issues through the Office of State Budget and Management. Other state agencies, such as the State Controller’s Office and the Office of State Personnel, conduct routine services on behalf of the SHP, but do not perform any type of monitoring function.

Previous Governance Reviews Have Identified Similar Issues

The Office of the State Auditor noted similar concerns with the SHP’s governance structure. As documented in its October 2008 audit report of the SHP, it reported concerns about the inadequacy and ineffectiveness of the SHP’s oversight. The State Auditor also issued an earlier

report back in 1994 that expressed similar concerns. Most notably, the auditor's report raised concerns that the statutes did not clearly assign authority for decision making. In particular, the existence of both a Board of Trustees and a legislative oversight committee created problems in gaining consultation and concurrence as required in the statute and ultimately did not allow for accountability of decision making.

The Board of Trustees also prepared a report to the General Assembly in May 2009 in which it concurred with many of the concerns raised by the State Auditor. It found that the governance structure over the SHP was unique among health plans of other states. The majority of states administer their health plans through a state agency that is part of the executive branch. The board's report also reiterated the lack of authority by the Board of Trustees to oversee the SHP.

The Governance Structure of the SHP is Unique in Comparison to State Employee Benefit Plans in Other States

The audit team conducted comparison research of state health plan governance structures used in other states. Appendices C and D summarize the governance structure and other characteristics of those plans. Similar to the Board of Trustees report, the audit team found that many states operate their health plans through an executive branch agency and several of these organizations are overseen by a governing board. For instance, the Pennsylvania Employees Benefit Trust Fund administers health care benefits and is governed by an authoritative board. The audit team did not find any other states that operated their health plans with a structure similar to that of North Carolina.

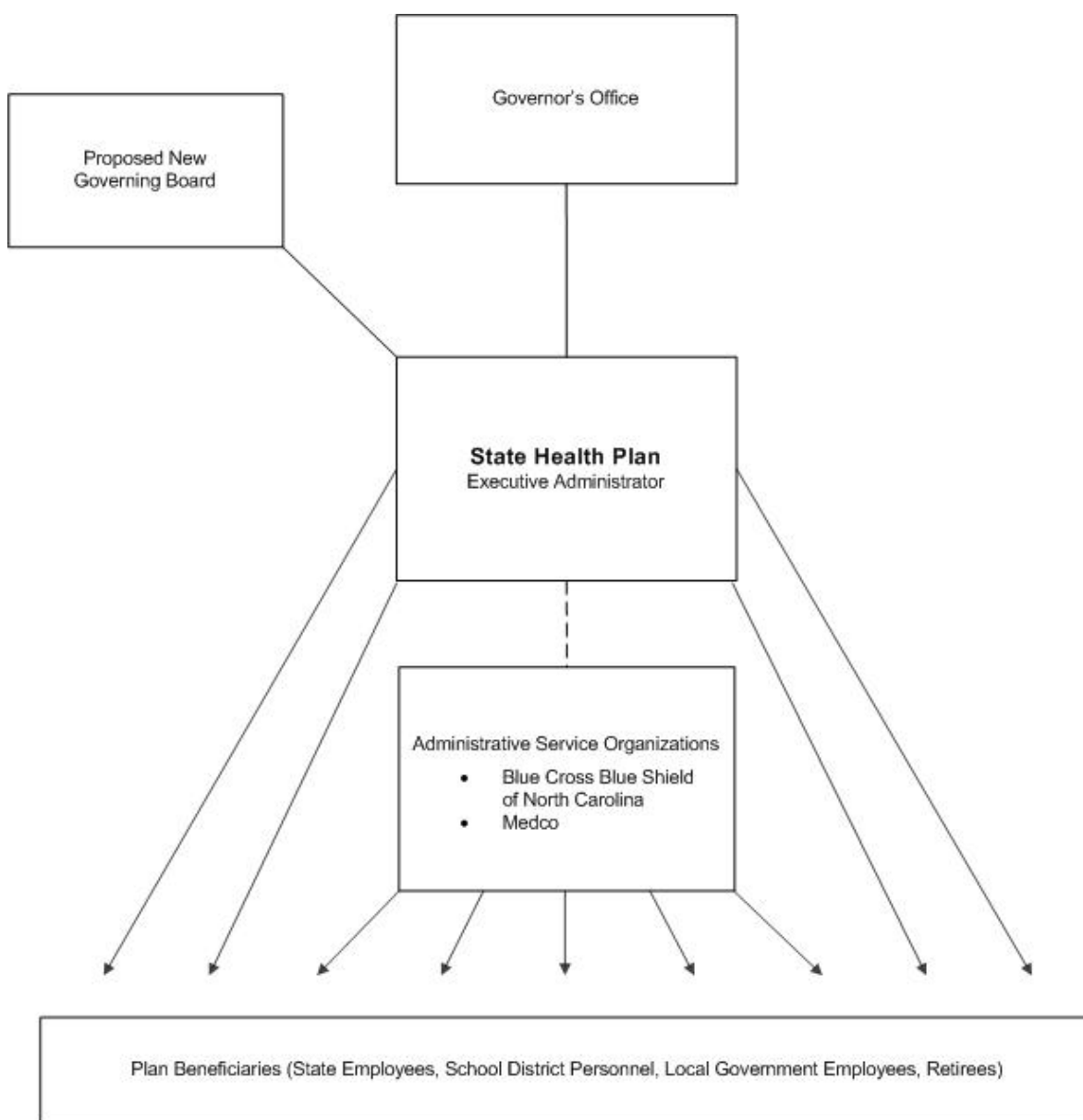
Recommendations

Based on the issues identified, the audit team developed several recommendations to strengthen the governance structure and promote steady leadership over the SHP. Because many of the audit team's recommendations involve changing the general statutes or creating new policy, these recommendations are directed to the State as a whole, rather than to the SHP or oversight committee. However, it is important that the recommendations be supported and championed by the SHP and other relevant parties to encourage their successful implementation.

Recommendation 1: Establish the SHP as an independent agency that reports organizationally to the Governor's Office and functionally to a governing board.

The State should change the reporting structure of the SHP to have it be accountable to both the Governor's Office and a governing board. As illustrated in Figure 3, this bifurcated structure will allow the SHP to be organized under the executive branch, while having a governing body assume responsibility over operations and policy decisions.

Figure 3: Proposed Revisions to Governance Structure of the SHP



Although previous reports by the State Auditor and the Board of Trustees concluded that the SHP should be moved within state government to report to an executive branch agency, they did not recommend a particular department to serve as the oversight agency. The uniqueness of the SHP creates challenges in placing it under any single agency or department. In reviewing the mission and purpose of various state agencies, the audit team did not find an entity that matched the SHP in terms of a comparable fit. The majority of departments had functions or responsibilities that were unrelated to the SHP's mission. For the few departments, such as the

Office of State Personnel, that did have similar missions of managing employee benefit services, their focus was limited to servicing state employees, rather than the larger population serviced by the SHP.

In lieu of assigning the SHP to report under a specific executive branch agency, the State should place the SHP organizationally under the Governor's Office. This arrangement would allow the SHP to be in direct communication with the Governor's Office and control agencies on all issues pertaining to state government matters, including budgeting, accounting and administrative activities affecting executive branch agencies. However, unlike other agencies that also report functionally to the Governor's Office via cabinet positions, the audit team recommends that the SHP report functionally to an independent governing board tasked with the direct authority to manage its operations. As discussed in the subsequent recommendations, the breadth of expertise provided by a wide composition of board members, coupled with the board's dedicated focus on the unique issues pertaining to a health benefits plan, will provide the SHP with the necessary leadership to ensure accountability of its operations.

Recommendation 2: Discontinue the operations of the current Board of Trustees and establish a new governing board.

The State should seek legislation to modify the general statutes pertaining to board oversight. As referenced earlier, the current Board of Trustees does not have any decision-making authority over the SHP. Although the Board of Trustees serves in a guidance role, it is ultimately the executive administrator who has exclusive authority over managing the SHP. Accordingly, the General Assembly should adopt legislation to discontinue the operations of this board and establish a new board empowered with governing authority. Likewise, the General Assembly should seek to discontinue the existence of the State Health Plan Administrative Commission, since the primary functions of that commission could be absorbed within the new governing board. The subsequent recommendations address the method in which the new governing board should be established and maintained.

Recommendation 3: Establish a charter and guiding principles for the governing board.

To provide the proper framework for exerting its oversight responsibilities effectively, the governing board should establish a formal charter and a set of guiding principles. The charter provides the board with the basis for its mission and purpose. The charter also serves as the reference source to ensure consistency and continuity in the board's responsibilities even as turnover among board members occurs over time. Key elements of the charter may include:

- Mission statement
- Goals and objectives
- Board responsibilities

- Board positions and organization
- Board protocol
- Frequency, timing and format of meetings

The purpose of the guiding principles is to provide a high-level framework which the board can refer to whenever evaluating alternate courses of action and provide the criteria against which the SHP's policies and procedures will be evaluated. For instance, the board could choose to establish a guiding principle stating that customer service is the top priority measure of the SHP. As a result, the board would base its key decisions within the context of how they would impact customer service. The principles can be revisited at any time and revised as needed.

Organizations that utilize charters and guiding principles will often find the additional structures to be beneficial in their ability to maintain a sense of leadership direction. The earlier the organization adopts these resources, the more likely they will maintain consistency in their authority, thereby instilling confidence among stakeholders.

Recommendation 4: Develop parameters to allow for an appropriate balance of representation on the governing board.

As the proposed entity responsible for overseeing the SHP's operations, it is critical that the governing board be comprised of an appropriate balance of individuals to represent the best interests of the participants and stakeholders. Accordingly, the State should seek changes to the statutes to define the composition of the SHP's governing board. The prescribed mix of members should be based on the need for balance among the various participants of the SHP, while also factoring the desire for subject-matter knowledge and professional experience in administering health plans.

Many states have prescribed the composition of their health plan governing boards to include members with specific backgrounds. For instance, the governing board of Alabama's teacher's retirement health plan includes two retired members, one city or county superintendent, one principal, one member from postsecondary education, three active teachers, and two education support personnel. In another example, West Virginia's Public Employee's Insurance Agency has a finance board comprised of representatives from labor, education, public employees, and public retirees.

At a minimum, the State should consider requiring representation on the governing board by each of the major groups of participants, including active state employees, school district personnel, local agency representatives, and retirees. The audit team recommends at least one dedicated position to serve on the board from each of these groups, with additional positions designated if any of the groups are proportionally larger than the others. The State should also allocate at least three positions on the board for representatives with knowledge and experience in the hospital, physician, and pharmacy fields.

Recommendation 5: Develop a formal selection process to ensure an appropriate level of competence among governing board members.

When selecting candidates to serve on the new governing board, the State should develop a methodology for ensuring a fair and equitable selection of competent board members. Members of governing boards are entrusted to make decisions that are in the best interest of the public. Likewise, there is a common expectation that board representatives have the appropriate knowledge and background required to perform their duties. Consequently, it is incumbent upon the State to ensure that the process for evaluating potential board members focuses on the desired characteristics of such representatives.

The State can apply best practices of other governments in developing its formal selection process. For example, the State of South Carolina uses a detailed screening process for selecting potential candidates to serve on the Department of Transportation Commission. Qualifications for serving on the board include the possession of a baccalaureate degree from an accredited university and a minimum of five years of experience in a combination of selected fields. The selection committee also performs a criminal background check, completes a credit investigation and conducts a personal interview with the candidate. The interview provides an opportunity for the selection committee to discuss routine questions related to ethical matters and conflicts of interest, as well as the candidate's familiarity with the operations of the commission and state government as a whole.

Recommendation 6: Establish a formal reporting structure between the SHP and the governing board.

The governing board should work with the executive administrator to develop a formal communications and reporting relationship to allow for effective oversight and follow up. One of the concerns expressed in the October 2008 State Auditor report was the difficulty of the Oversight Committee, Board of Trustees and Oversight Team in obtaining information needed to analyze the SHP's financial condition. This challenge contributed to the oversight committee's inability to anticipate a budget shortfall during fiscal year 2008 – 2009 and mitigate the effects of that loss.

As the consolidated authoritative oversight entity, the governing board should have direct access to all key information and have the expectation that the SHP will provide meaningful and understandable reports. Elements of a communications and reporting structure that have proven to be effective in other organizations include:

- Time line or schedule identifying frequency of written and verbal communications
- Identification of individuals tasked with communication responsibilities
- Preparation of agendas and information packets for board meetings

- Report templates identifying the data items, records, summaries and financial data
- Protocol for following up on questions identified during the board's review of reports, including response time and format
- Protocol for addressing communication concerns

The governing board should interact frequently and closely with the executive administrator, particularly during the board's initial formation when its members are being asked to take on more responsibility beyond the role of the Board of Trustees. To the extent that the governing board gains comfort with the SHP's methods of communication, it can modify the frequency, volume, and nature of the communications.

Recommendation 7: Formalize a communications approach with the General Assembly and Governor's Office.

Similar to the reporting structure with the proposed governing board, the SHP should develop a formal communications strategy for periodically communicating its financial and operational status with the General Assembly and Governor's Office. Although the earlier recommendations address the need for the governing board to exert control over plan management, the SHP should also communicate with the legislative and executive branch leadership to ensure that they are apprised of issues affecting the financial outlook of the SHP in a timely manner.

Potential Savings

The audit team believes that there will be some additional costs associated with implementing the recommendations in this report, although it is difficult to estimate these incremental costs. For some recommendations, such as those involving statutory changes, there will likely be one-time costs incurred for the efforts to implement the changes. Other recommendations, such as the implementation of a formal board selection process, would result in additional recurring personnel costs as activities are expected to occur periodically. Additional costs would also be incurred to the extent that the State increases compensation to members of the new governing board beyond the rates paid to current members of the Board of Trustees.

The implementation of recommendations pertaining to the governance function may not directly result in immediate cost savings. However, the State will likely realize long-term improved efficiencies in its governance structure, the benefits of which may be recognized in the form of time and resource savings, such as additional time available for legislators who served on the oversight committee to focus on other responsibilities benefitting the State. The realization of savings may also be in the form of establishing appropriate oversight of the SHP to avoid cost overruns from occurring and warning indicators from not being addressed immediately.

IV. Appendices

Appendix A: List of Interviewees

- State Health Plan
 - Dr. Jack Walker, Executive Administrator
 - Lacey Barnes, Deputy Executive Administrator
 - Wendy Greene, Legal Counsel
- Legislative Branch
 - Senator Tony Rand, Oversight Committee Co-chair
 - Representative Hugh Holliman, Oversight Committee Co-chair
 - Mark Trogon, Fiscal Research Division
 - Gann Watson, Bill Drafting Division
- Executive Branch
 - Andy Willis, Governor's Office
 - Mike Arnold, Governor's Office
 - Bill Stockard, Office of State Management and Budget
 - Ron Ottavio, Chief of Staff, State Treasurer's Office
 - Wayne Goodwin, Commissioner of Insurance
 - Louis Belo, Department of Insurance
 - Rose Vaughn Williams, Department of Insurance
 - Ted Hamby, Department of Insurance
 - Mark Edwards, Department of Insurance
 - Ronnie Condrey, Department of Insurance
 - Linda Coleman, State Personnel Director
 - David McCoy, State Controller

Appendix A *(continued)*

- Tom Newsome, Chief Deputy Controller
- John Baldwin, Chief of Staff, Department of Labor
- Nancy Lipscomb, Department of Labor
- Other Stakeholders
- Pam Deardorff, North Carolina Retired School Personnel Association
- Lacey Pressmill, North Carolina Retired School Personnel Association
- Marge Foreman, North Carolina Association of Educators
- Dr. Steven Beam, Chair, SHP Board of Trustees
- Dan Meyers, Member, SHP Board of Trustees
- Dr. John Hammond, Member, SHP Board of Trustees

Appendix B: List of Materials Reviewed

- North Carolina General Statute
- State government organization charts
- North Carolina State Auditor's Office audit reports of the SHP
- Board of Trustees report pertaining to the SHP governance structure
- Documents and websites containing information on leading practices utilized by other state health plans

Appendix C: Overview of Governance Structure in Other State Health Plans

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Alabama	(1) Alabama State Employees Insurance Board (SEIB)	(1) The SEIB is an agency of the State of Alabama and is responsible for various aspects of the administration of four benefit plans and programs: State Employees' Health Insurance Program (SEHIP), Local Government Health Insurance Program (LGHIP), Flexible Employees' Benefit Plan and Alabama Health Insurance Plan (AHIP). The SEIB employs a staff of approximately 50 employees who perform primarily enrollment and accounting functions for all four plans.	(1) Alabama State Employee Insurance Board (SEIB), was established in 1965 by Alabama Legislative Act 1965-833.	Self-Funded	(1) City, town, and county employees.
	(2) Public Education Employees' Health Insurance Plan	(2) Public Education Employees Health Insurance Plan (PEEHIP) is a health insurance plan for active and retired employees of state educational institutions. Four-year universities are eligible to participate, but as of the most recent financial statements, only Jacksonville State is participating in the plan. Responsibility for establishment of the health insurance plan and general administration and operations is vested in the Public Education Employees' Health Insurance Board.	(2) PEEHIP, established in 1983, provides health insurance benefits for active and retired education employees and is governed by the PEEHIP Board of Control. The Board of Control elects the Secretary-Treasurer who serves as the Chief Executive Officer of the RSA and is responsible for the day-to-day management of the RSA.		(2) School system, junior college, and university employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Alaska	Alaska Retirement Management Board	The board is responsible for managing the assets of the state's retirement systems.	The board consists of nine trustees and is staffed by the Department of Revenue - Treasury Division. The board appoints an Investment Advisory Council (IAC) composed of three members who possess experience and expertise in financial investments and management of investment portfolios.	Self-Funded	Public school, college, and university employees.
Delaware	Delaware Office of Management and Budget - Statewide Benefits Office	The State provides benefit options through Wellaware.	The State Employee Benefits Committee (SBEC) was formed as a result of legislation introduced and passed by the General Assembly and signed by the Governor. The SEBC was created by the Delaware General Assembly to manage all current and future employee benefit programs for State of Delaware employees, including but not limited to all forms of health insurance, life insurance, and disability insurance.	Self-Funded	Public school, college, and university employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Georgia	Georgia Department of Community Health - Public Employee Health Benefit Plan Division	The Georgia Department of Community Health (DCH) was created in 1999 to serve as the lead agency for health care planning and purchasing issues in Georgia.	The General Assembly created DCH by consolidating four agencies involved in purchasing, planning, and regulating health care. In 2009, the Division of Public Health and Emergency Preparedness transitioned to DCH. The department is also designated as the single state agency for Medicaid.	Self-Insured	Public school employees.
Indiana	Indiana State Personnel Department	The State Personnel Department is responsible for the employee health plans, working in conjunction with the Budget Agency and the Governor's Office.	Health insurance is handled by the Benefits Division within the State Personnel Department. The Director of the State Personnel Department serves on the Governor's cabinet. Benefit appeals are first handled by the insurance carriers. If there is an appeal or dispute that involves the terms or interpretation of the contract policy, the State Personnel Department engages with the insurance carrier to resolve.	Self-Insured	Public school, college, and university employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Kentucky	Kentucky Personnel Cabinet - Department for Employee Insurance	The Kentucky Employees' Health Plan (KEHP) provides health insurance benefits to the employees and retirees of Kentucky, as well as local school boards, local health departments and other quasi governmental agencies.	As a non-profit, self-funded plan, KEHP is owned and operated by the Commonwealth of Kentucky. KEHP participants have a direct stake in the financial well-being of the plan.	Self-Funded	Public school employees.
Maine	Maine Division of Employee Health and Benefits	The State Employee Health Commission was established to serve as trustee of the group health plan and to advise the Executive Director of Health Insurance and the Director of the Bureau of Human Resources on health insurance issues and the Director of the Bureau of Human Resources on issues concerning employee health and wellness and the State Employee Assistance Program.	The State of Maine is governed by the State Employee Health Commission.	No	City, town, and county employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Minnesota	Minnesota Department of Employee Relations - Benefits Division	The Minnesota Management and Budget Office offers the Minnesota Advantage Health Plan to all benefits-eligible State employees.	SEGIP is not run by a board or trust but rather is managed through a labor union bargaining relationship. Plan design and premiums are bargained every 2 years for all state unions (about 90 percent of the state). The remaining non-union population is given the same set of benefits as the union members. The process takes place through a group called the Joint Labor Management Committee on Health Plans, where topics related to employee benefits are discussed and then ultimately bargained for. It is comprised of management and union representatives.	Self-Funded	College and university employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Mississippi	Mississippi Department of Finance and Administration - State Insurance Administration	The Mississippi Department of Finance and Administration provides benefits to state and school employees.	As provided by Mississippi law, the State and School Employees Health Insurance Management Board has complete authority to control, operate, and manage the Plan. The Department of Finance and Administration, Office of Insurance is authorized by law to provide day-to-day management of the Plan. The Board has provided full discretion to the Office of Insurance to determine eligibility status, interpret Plan benefits and rules, and determine whether a claim should be paid or denied according to the provisions of the Plan set forth in the Plan Document.	Self-Funded	Public School Employees.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Missouri	Missouri Consolidated Health Care Plan	MCHCP provides coverage to employees and retirees of most State agencies as well as public entities that have joined MCHCP. Over 108,000 State and public entity members are covered by MCHCP, which is a separate, stand-alone State entity created by statute and organized under the direction of a 13-member board of trustees.	The Board of Trustees is comprised of members elected by the plan participants, ex-officio members, and a number of appointed members.	Self-Insured	Cities, towns, counties, universities, and colleges.
Oregon	Oregon Educators Benefit Board	The Oregon Educators Benefit Board (OEBB) was created to provide health, dental, vision and other benefits for most of Oregon's school district employees.	The Board was created with the signing of Senate Bill 426 in March 2007.	Self-Insured (as of 2010)	K-12 grade school districts, education service districts, community colleges, and some charter schools.
South Carolina	South Carolina Budget and Control Board - Employee Insurance Program	This institution is unique to South Carolina and provides a broad array of services to other areas of the public sector as well as administrative and regulatory functions.	The State Health Plan is overseen by the South Carolina Budget and Control Board.	Self-Insured	Cities, towns, counties, and public schools.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Tennessee	Tennessee Department of Finance and Administration - Insurance Administration	The department is responsible for servicing three basic groups of employees by managing their state-provided insurance benefits. The state plan is comprised of state government and higher education employees. The local education plan is available to local K-12 school systems who choose to participate in the plan. The local government plan is available to local city and county governments and to certain quasi-governmental agencies that choose to participate.	State employees elect two representatives to serve as members of the State Insurance Committee. The committee sets benefits, establishes the monthly premiums, and provides for the management of the group insurance coverage available to state employees.	Self-Funded	Cities, towns, counties, public schools, colleges, and universities.
Vermont	Vermont Department of Human Resources - State Employee Center	The Department of Human Resources provides leadership to and works in partnership with other state departments.	The plan is governed by the Plan Document, which is a negotiated document. All administration and decisions about the State Health Plan are the responsibility of the Employee Benefits Unit within the Department of Human Resources. The department has ultimate approval of the labor contracts (which drive benefit plans) and control over vendor selection through a competitive bid process by the Office of the Governor.	Self-Funded	State employees only.

Appendix C (continued)

State	Administrative Agency	Overview	Governance Structure	Self-Insured or Self-Funded Program	Other Plan Participants (besides state employees)
Wisconsin	Wisconsin Department of Employee Trust Funds - Division of Insurance	There are six Boards of Trustees associated with the Wisconsin Department of Employee Trust Funds. The Boards set policy and review the overall administration of the benefit programs provided for state and local government employees. Board membership is set by state law. Members attend meetings in Madison and influence the Department's direction by voicing participant concerns, identifying ways to improve service to participants and employers, and prioritizing available resources to meet competing administrative needs.	The boards include the Employee Trust Fund Board, the Teachers Retirement Board, the Wisconsin Retirement Board (advisory), Group Insurance Board, and the Deferred Compensation Board.	Self-Insured	Cities, towns, and counties.

Appendix D: Structure and Composition of Other State Health Plan Boards

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Alabama (2 boards)	(1) The SEIB is composed of 11 members, including five members of the State Personnel Board, the Director of the Finance Department, the Secretary-Treasurer of the Employees' Retirement System of Alabama, two elected active state employees and two elected retired state employees.	(1) The Board members serve three-year terms except for the ex officio members who serve as long as they hold their offices. The Board elects the Secretary-Treasurer who serves as the Chief Executive Officer of the RSA and provides for the day-to-day management of the RSA.	(1) Governing	(1) Reimbursement for travel only	(1) The Board holds meetings quarterly.	(1) The Appeals Committee within the Board rules on appeals.
	(2) PEEHIP Board of Control consists of 14 members. Four are ex officio - State Superintendent of Education; State Treasurer; State Director of Finance; and the Executive Secretary of the Alabama Education Association. Ten members are elected by members of the Teachers' Retirement System as follows: two retired members; one city or county superintendent; one principal; one member from postsecondary education; three teachers who are actively instructing students in grades K to 12; and two education support personnel.	(2) The Board members serve four-year terms and can be reappointed.	(2) Governing	(2) Reimbursement for travel only	(2) The Board meets a minimum of twice a year.	(2) The Board may hear appeals, but does not make the final decision.

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Arkansas	Total of 12 members: A state employee to be appointed by the Governor, a certified classroom teacher to be appointed by the Governor, the Insurance Commissioner, the Director of the Department of Education, the Director of the Department of Finance and Administration, one member who is engaged in employee benefits management or risk management in private industry to be appointed by the Governor, one additional member position which shall be filled alternately by a retired teacher and by a retired state employee appointed by the Governor, one public school administrator to be appointed by the Governor, one Executive Director of the Arkansas State Board of Pharmacy, the Director of Health Facility Services of the Department of Health, one member who is a licensed health care provider appointed by the Governor, and one additional vacant position.	The Board members serve four years per term and can be reappointed for multiple terms.	Governing	Reimbursement for travel only	Monthly	There is a 3-tiered process for filing appeals; the Board is the final step.

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Delaware	There are seven members on the Committee. To represent all facets of state government, SEBC is composed of various State of Delaware employees including representatives from labor organizations, non-union employees, educational employees and other appointees. All members of this council, including the chair, are appointed by the Governor and serve staggered terms.	Members of the Committee remain in their positions as long as they are employed in the positions they hold.	Governing	Reimbursement for travel only	Monthly	Once the appeal reaches a certain level, the committee makes the final decision.
Idaho	Six members.	Board members hold their positions as long as the position held is occupied.	Advisory	None	6 Times a Year	None

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Kansas	Membership of the Board is made up of nine voting members who have been appointed by the Governor and House and Senate leadership, and eight non-voting (ex-officio) members who include Secretaries of State Departments: Health & Environment (including Interim Director of Health), Social & Rehabilitation Services, Administration, Aging, the Insurance Commissioner, the Commissioner of Education, and the Executive Director of KHPA.	Nine members are appointed by the Governor's Office, three from the Governor, three from the Senate, and three from the House; eight ex-officio members are the cabinet secretaries.	Governing	Reimbursement for travel only	The Board meets once every two months or eight times a year.	Direct involvement

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Louisiana	The Board consists of 16 members (15 voting, one non-voting) as follows: one member of the House of Representatives appointed by the Speaker; one member of the Senate appointed by the President of Senate; Commissioner of Insurance. or designee (non-voting); five members appointed by the Governor from the private sector; one from each profession: an employee health care/employee benefits specialist, a CPA, and a licensed health and life insurance agent. At least one member shall be of the minority race. The Senator and Commissioner of Insurance serve concurrent terms. All other members serve six-year terms.	Members elected to the Group Benefits Policy and Planning Board serve six-year terms. Regular elections are held in even-numbered years.	Advisory	Reimbursement for travel only	The Board meets at the pleasure of the Chairman anywhere from 6-12 times a year. There is one mandatory meeting per statute that must be held in July.	None

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Maine	There are 24 labor and management members; Labor Members: one labor member from each bargaining unit and one from the largest bargaining unit; one appointed by the retiree chapters of the Maine State Employee Association; one member from Maine Turnpike Authority; one member from Maine Public Employees Retirement System; one member from Maine Maritime Academy; Management Members: one member from the Maine Community College System; four members appointed by the Commissioner of Administrative and Financial Services; one appointed by the Court Administrators, the Executive Director of Health Insurance (ex officio); one member representing retirees appointed by the Maine Association of Retirees; one member from the Maine Community College System; one member appointed by each of the following: Executive Director of the Maine Turnpike Authority, Executive Director of the Maine Public Employees Retirement System and the President of the Maine Maritime Academy.	Each Member's term is served until the position is reassigned by the appointing authorities.	Governing	Reimbursement for travel only.	Monthly	Direct involvement

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Mississippi	The Board consists of 14 members: the Executive Director of the Department of Finance and Administration; the Chairman of the Workers' Compensation Commission; the Commissioner of Insurance; the Commissioner Higher Education; the State Superintendent of Education; the State Personnel Director; the Executive Director of the State Board for Community and Junior Colleges; the Executive Director of the Public Employees' Retirement System; two appointees of the Governor whose terms are concurrent with that of the Governor (one of whom has experience in providing actuarial advice to companies that provide health insurance to large groups and one of whom has experience in the day-to-day management and administration of a large self-funded health insurance group); and four ex-officio members: the Chairmen of the Senate Insurance Committee or a designee, the Chairman of the House of Representatives Insurance Committee or a designee, the Chairmen of the Senate and House of Representatives Appropriations Committees or their designees.	Board Terms are consistent with employment or as long as the Governor holds a seat. Members can be reappointed.	Governing	Reimbursement for travel only.	Monthly	None; appeals are reviewed by the Office of Insurance.

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Missouri	One member is appointed by the President Pro Tem of the Senate, four are Governor appointed members, four are ex officio members, two are appointed by the Speaker of the House of Representatives, and one position is appointed by the President Pro Tem of the Senate.	Board terms are 4 years, beginning each January no matter what month appointed. Board members can be reappointed.	Governing	Reimbursement for travel only.	Monthly	Direct involvement
North Dakota	The NDPERS Board consists of seven members. One member, the Chairman, is appointed by the Governor; one member is appointed by the Attorney General's staff; one member is the North Dakota State Health Officer's appointee; three members are elected by the active membership of the NDPERS system; and one member is elected by the retired public employees.	5 years; elected members can be reappointed.	Governing	Reimbursement for travel only.	6 Times a Year	None

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Oregon	Eight voting members and two members of the Legislative Assembly as nonvoting advisory members. Two of the voting members are ex officio members and six are appointed by the Governor. Four members representing the state as an employer and management employees: the Director of the Oregon Department of Administrative Services, the Administrator of the Office for Oregon Health Policy and Research, and two management employees appointed by the Governor. Four members are appointed by the Governor: two persons from the largest employee representative unit; one person from the second largest employee representative unit; one person from employees not represented by employee representative units. One member of the Senate shall be appointed by the President of the Senate, and one member of the House of Representatives shall be appointed by the Speaker of the House to serve as nonvoting advisory members.	4 years; no reappointment	Governing	Reimbursement for travel only.	Monthly	None

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Pennsylvania	14 members: seven are designated by the Secretary of Administration of the Commonwealth of Pennsylvania and seven are designated by participating unions.	4 years, no reappointment.	Governing	None	6 Times a Year	None
South Carolina	Five members: the Governor, the Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee.	Elected into office	Governing	Per Diem	6 Times a Year	Direct involvement
Texas	Six members: Three appointed state employees—one by the Governor, one by the Speaker of the House, and one by the Chief Justice of the Supreme Court; and three elected trustees who are active state employees (elected directly by active and retired state employees) with a variety of backgrounds representing all sizes and types of agencies and employees.	6 years; members can be reappointed or elected and there is no term limit.	Governing	Elected members receive no compensation; appointed members receive a \$400 per-diem stipend. All board members are reimbursed for travel.	The ERS of Texas Board has three 1-day meetings (February, May, and August) and one 2-day meeting (November or December) per year.	None

Appendix D (continued)

State	Number of Board Members/Positions	Length of Board Term and Reappointment	Board Authority: Governing or Advisory	Compensation and/or Reimbursement	Frequency of Meetings	Role in Ruling on Appeals
Wisconsin	13 members: Employee Trust Fund and Teachers Retirement Boards; 4 members: Teachers Retirement Board; 9 members: Wisconsin Retirement Board; 11 members: Group Insurance Board; 5 members: Deferred Compensation Board.	Four year staggered terms, some positions are eligible for reappointment.	Governing	None	5 Times a Year	Direct involvement
Wyoming	12 members on the Board made up of heads of participating entities and agencies. They seek members for the Board with analytical skills and those with experience pertaining to the services provided.	Board members serve a three-year term and there is no reappointment of members.	Advisory	Reimbursement for travel only.	Quarterly	None